

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-_____

IAWC EXHIBIT NO. MJH-1.0

DIRECT TESTIMONY OF MICHAEL J. HOFFMAN

ILLINOIS-AMERICAN WATER COMPANY

ILLINOIS COMMERCE COMMISSION
DOCKET NO. 06-13001-0001
EXHIBIT NO. MJH-1.0
MICHAEL J. HOFFMAN
ILLINOIS-AMERICAN WATER COMPANY

1 **Q. Please state your name.**

2 A. Michael J. Hoffman.

3 **Q. Please state your business address, telephone number and e-mail address.**

4 A. 727 Craig Road, St. Louis, Missouri 63141, telephone 314-996-2347, e-mail:
5 Michael.Hoffman@amwater.com.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by American Water Works Service Company ("Service
8 Company") as a Senior Financial Analyst in Rates & Regulations. The Service
9 Company is a subsidiary of American Water Works Company, Inc. ("American")
10 that provides shared services to American's water utility subsidiaries.

11 **Q. Please summarize your higher education.**

12 A. I graduated from the University of Illinois with a Bachelor of Science degree in
13 Accounting in 1995. I passed the CPA exam in 1995 and the Series 62 exam in
14 1995.

15 **Q. Have you participated in additional educational activities?**

16 A. Yes. I have attended the Utility Rate Seminar sponsored by the National
17 Association of Regulatory Utility Commissioners ("NARUC") Water Committee
18 and have participated in various continuing education programs sponsored by
19 my former employers and by the Service Company.

20 **Q. Please summarize your employment experience.**

21 A. From 1995 to 1997 I worked for Goldman, Sachs & Co. as a financial analyst in
22 the Investment Banking Division where I worked on various financings and

23 mergers and acquisitions. From 1997 to 1998 I worked as an associate for a
24 private equity fund called Charterhouse Group International where I worked with
25 seven portfolio companies and provided expertise related to financings and
26 acquisitions. From 1998 to 2002 I worked for Interliant, Inc. and its predecessors
27 in jobs ranging from Director of Mergers and Acquisitions, where I completed
28 various acquisitions, to Vice President of Web Hosting, where I had operational
29 and profit/loss responsibility for a \$25 million business unit. From 2002 to 2004 I
30 consulted companies on operational efficiency matters. From 2004 to present I
31 have worked with the Service Company.

32 **Q. Have you previously testified before this Commission in other**
33 **proceedings?**

34 A. Yes. I have testified on behalf of Illinois-American Water Company in the South
35 Beloit acquisition case (Docket No. 05-0724.)

36 **Q. Have you testified before any other regulatory commissions?**

37 A. Yes. I have presented testimony to the Indiana Utility Regulatory Commission
38 and the Public Utilities Commission of Ohio. In addition, I have participated in
39 regulatory matters in Missouri.

40 **Q. Please summarize your responsibilities as Director of Rates and Revenues.**

41 A. My responsibilities as Senior Financial Analyst, Rates & Regulations involve
42 providing the following services to American's water utility subsidiaries in the
43 Central Region, including Illinois-American Water Company, Inc. ("Illinois-
44 American" or "Company"):

- 45 1) Preparing and presenting all rate increase applications and supporting
46 documents and exhibits as prescribed by management policies,
47 guidelines and regulatory commission requirements;

- 48 2) Preparing rate analyses and studies to evaluate the effect of proposed
49 rates on the revenues, rate of return and tariff structures;
- 50 3) Executing the implementation of rate orders, including development of the
51 revised tariff pricing necessary to produce the proposed revenue level;
- 52 4) Overseeing the preparation of revenue and capital requirements budgets
53 and analyses;
- 54 5) Providing support for financial analysis of proposed acquisitions and
55 expansion of service territory, including preparation of applicable
56 regulatory commission filings.

57 **Q. Are you generally familiar with the business, facilities and the operations of**
58 **the Company in each of its divisions?**

59 A. Yes.

60 **Q. Are you generally familiar with the books and records of the Company?**

61 A. Yes.

62 **Q. What is the purpose of your testimony in this proceeding?**

63 A. The purpose of my testimony is to address the rate, financial, and accounting
64 aspects of the acquisition of the Village of Pesotum ("Pesotum") water system
65 and expansion of the Company's certificated area. Mr. Barry L. Suits, Eastern
66 Division Manager for Illinois-American, will testify to other aspects of this
67 transaction.

68 **Q. What rates, rules and regulations will be applicable to customers within the**
69 **area requested to be certificated in this proceeding?**

70 A. Those customers will be subject to the tariff rates, rules, and regulations on file
71 from time to time and applicable to the Champaign District of Illinois-American.

72 **Q. Please compare the proposed rates to Pesotum's existing rate structure.**

73 **A.** Based upon information from Pesotum, the Company believes that the current
74 average monthly water bill for 6,000 gallons of monthly water usage is \$16.00.
75 Under the current rates in effect for the Champaign District, the average water
76 bill for 6,000 gallons will be \$25.15, as shown on Exhibit MJH-1.1. Based on
77 quotes from Pesotum officials, Pesotum would need to raise rates in the future to
78 pay for infrastructure improvements on its system if it were not sold to Illinois-
79 American. In addition, the Pesotum officials acknowledged that the quality of
80 water that Illinois-American will supply would be better than Pesotum currently
81 provides. Please see Exhibit MJH-1.2 for more details.

82 **Q. Will any of the Company's tariffs be revised to reflect the addition of**
83 **Pesotum?**

84 **A.** Yes. The Company has identified four tariff sheets that will require revision, and
85 proposes that tariff filing be made after issuance of the Order in this proceeding
86 and prior to closing of the acquisition. The Company further proposes to provide
87 such tariffs to Commission Staff's Rate Department in advance of such filing for
88 review and comment. Pursuant to that review, a compliance tariff filing would be
89 made with an effective date not less than two business days after such filing, to
90 allow for any final review by Staff.

91 **Q. Please describe these tariff revisions.**

92 **A.** Ill. C.C. No. 5, First Revised Title Page will be revised to add Pesotum to the list
93 of Cities served under this tariff. Ill. C.C. No. 5, Third Revised Sheet No. 0.1 will
94 be revised to add Pesotum as a water service recipient within the Champaign
95 District. A new fire district, Pesotum FPD, is being added to Ill. C.C. No. 5,
96 Twenty-seventh Revised Sheet No. 2. Finally, a new fire district, Pesotum FPD,

is being added to Ill. C.C. No. 5, Twenty-seventh Revised Sheet No. 2.3. A copy of this proposed tariff change is identified as Exhibit MJH-1.3.

Q. Why is it necessary to add a new fire district to Sheet No. 2 and Sheet No. 2.3, labeled as Exhibit MJH-1.3?

A. All of the customers served by Pesotum are located in a fire district for which Illinois-American does not currently have rates on file. It was necessary for the Company, therefore, to determine rates for customers located within Pesotum FPD.

Q. Did Illinois-American enter into a Public Fire Protection Service Agreement with Pesotum FPD?

A. Yes. Pesotum FPD elected to not pay any portion of the monthly fire hydrant cost and, instead, pass all such costs on to the customers within the fire district. A copy of the executed Public Fire Protection Service Agreement with Pesotum FPD is attached as Exhibit MJH-1.4.

Q. Please discuss how the rates shown on Exhibit MJH-1.5 for customers within Pesotum FPD were developed.

A. The number of annual hydrant billings was multiplied by the monthly cost per hydrant to determine the annual cost that needs to be recovered from Pesotum customers. The annual cost was then divided by 5/8" equivalent meter billing units to derive a 5/8" equivalent meter charge needed to recover the full cost of the hydrants. The 5/8" equivalent meter charge was then multiplied by the flow factor for each meter size to arrive at the rates shown on Exhibit MJH-1.5.

Q. How did you develop the number of hydrant billings?

A. I first determined the number of hydrants. Pesotum currently has 32 hydrants. Of that total, 23 hydrants were determined to assist Pesotum FPD in fighting fires.

The remaining nine hydrants are not used by Pesotum PFD for fire fighting. These latter hydrants are currently used primarily for main flushing. Please see the direct testimony of Mr. Barry L. Suits, Eastern Division Manager for Illinois-American, for more details on how it was determined which fire hydrants were used for fire protection. I multiplied the number of hydrants used for fire fighting (23) by the number of annual billings (6) to arrive at a total of 138 hydrant billings.

Q. How did you develop the bi-monthly cost per hydrant?

A. The cost per hydrant of \$53.10 every two months was derived from the annual charge per hydrant in the Company's most recent rate case in Docket No. 02-0690. This annual charge is \$318.57. The annual charge was then divided by six to determine the charge every two months. It is appropriate to use the annual charge per hydrant in the Company's most recent rate case in Docket No. 02-0690 since that cost serves as the basis for the rates shown for the other Champaign Fire Districts.

Q. How did you develop the 5/8 inch equivalent meter billings?

A. I first determined the annual number of meter billings for each size of meter. With 257 5/8" metered customers, one 1" metered customer, and one 2" metered customers billed bi-monthly, there are a total of 1,554 annual meter billings (259 customers multiplied by six (6) billings per year). The 1,554 annual meter billings convert to 1,587 5/8" equivalent billing units after application of the flow factor to meters larger than a 5/8". Specifically, 5/8" meter billings were multiplied by a factor of 1.0; 1" meter billings were multiplied by a factor of 2.5 (because the flow of water from a 1" meter is 2.5 times greater than a 5/8"); and 1 1/2" meter and larger billings were multiplied by a factor of 5.0.

147 **Q. Is Illinois-American capable of financing the proposed asset purchase**
148 **without significant adverse financial consequences for the utility or its**
149 **customers?**

150 **A.** Yes. Illinois-American has access to all of the necessary funds to support its
151 purchase of these assets through its parent, American Water Company.

152 **Q. How does Illinois-American propose to finance the acquisition?**

153 **A.** Payment of such funds will be initially financed with internally generated funds
154 and/or short-term debt. To the extent short-term debt is required, permanent
155 financing ultimately will be provided through a combination of long-term debt and
156 equity capital.

157 **Q. Have you performed an analysis of the revenue needed to support the**
158 **additional investment in Pesotum's water system assets?**

159 **A.** Yes. Attached as Exhibit MJH-1.6 is a schedule that indicates that estimated
160 additional annual revenues from Pesotum customers will total approximately
161 \$64,567. This amount of revenue is sufficient to cover additional estimated
162 operating expenses and support an investment of approximately \$156,839 (as of
163 September 1, 2006.) As such, acquisition of the Pesotum water system assets
164 provides a positive financial benefit to Illinois-American's existing customers. In
165 addition, integration of the Pesotum system into the Champaign District will
166 provide further benefits to Illinois-American customers through economies of
167 scale and spreading of fixed costs over a larger customer base.

168 **Q. Please discuss the proposed accounting treatment for the acquisition.**

169 **A.** Attached is Exhibit MJH-1.7, which shows the proposed journal entries to record
170 the acquisition. The first journal entry proposes the initial recording of the
171 \$165,771 payment for the assets as a debit to Account 104-Utility Plant

Purchased or Sold and a credit to Account 131-Cash. The second entry proposes transfer of the 104 account balance to utility plant in service and accumulated depreciation, with any remaining balance clearing to Account 114 Utility Plant Acquisition Adjustment. Within six months from the date of the completed acquisition, Illinois-American will file with the Commission, as instructed in Account 104, Subpart B of 83 Ill. Adm. Code 605 (Uniform System of Accounts for Water Utilities), journal entries to clear from this account the amounts recorded therein.

Q. Please generally describe how you arrived at the original cost information on Exhibit MJH-1.7.

A. Illinois-American obtained information regarding Pesotum's water system assets through an operational and engineering review of their system, a review of recent financial statements, and discussions and correspondence with village personnel. Pesotum's current water utility assets are primarily comprised of distribution system assets installed in the late 1950s, late 1980's and late 1990's; an elevated tank installed in 1956, and land and associated improvements for a water treatment plant. The Company, working with Pesotum, had sufficient information to estimate the original costs of the assets.

Q. How did you compute Accumulated Depreciation of Utility Plant Assets, as shown on Exhibit MJH-1.7?

A. Accumulated Depreciation is based on depreciation rates in effect from time to time for the Champaign District. Since 1956, the Company (or its predecessor) has had six different sets of depreciation rates in effect. Rates were applied to determine a cumulative composite rate for each vintage year asset or group of like assets. The resulting cumulative composite rate was then applied to the

197 original cost of the utility plant assets to arrive at imputed accumulated
198 depreciation, as shown on Exhibit MJH-1.7.

199 **Q. How does the Company propose to dispose of the balance in Account 114**
200 **– Utility Plant Acquisition Adjustment?**

201 A. The Company proposes to dispose of the balance recorded in this account
202 through a one-time charge to Account 426-Miscellaneous Non-utility Expenses at
203 the time final journal entries are recorded.

204 **Q. Does this conclude your testimony?**

205 A. Yes, it does.

ILLINOIS-AMERICAN WATER COMPANY
Acquisition of Village of Pesotum Water System
Docket No. 06-XXXX

EXHIBIT MJH 1.1

Comparison of Current Pesotum Rates with Champaign District Rates

5/8" meter

1000 Gal Usage	Service Charge	Volume Charge	Public Fire (1)	Total IAWC Water Bill	Current Pesotum Water Bill (2)	Dollar Difference	Percent Difference
0	\$7.60	\$0.000	\$2.31	\$9.91	\$8.00	\$1.91	23.88%
1000	\$7.60	\$2.541	\$2.31	\$12.45	\$8.00	\$4.45	55.63%
2000	\$7.60	\$5.081	\$2.31	\$14.99	\$8.00	\$6.99	87.39%
3000	\$7.60	\$7.622	\$2.31	\$17.53	\$10.00	\$7.53	75.32%
4000	\$7.60	\$10.163	\$2.31	\$20.07	\$12.00	\$8.07	67.27%
5000	\$7.60	\$12.703	\$2.31	\$22.61	\$14.00	\$8.61	61.52%
6000	\$7.60	\$15.244	\$2.31	\$25.15	\$16.00	\$9.15	57.21%
7000	\$7.60	\$17.785	\$2.31	\$27.69	\$18.00	\$9.69	53.86%
8000	\$7.60	\$20.325	\$2.31	\$30.24	\$20.00	\$10.24	51.18%
9000	\$7.60	\$22.866	\$2.31	\$32.78	\$22.00	\$10.78	48.98%
10000	\$7.60	\$25.407	\$2.31	\$35.32	\$24.00	\$11.32	47.15%

(1) See Exhibit MJH-1.4

(2) The current Pesotum rates are \$8.00 per month for up to 2,000 gallons of usage per month plus \$2.00 for every 1,000 gallons used after the first 2,000 gallons.

NEWSPAPER CLIPPINGS

COMPANY NAME Illinois American Water - Champaign County District
 CLIPPING FROM The News-Gazette DATED 7/5/03 PAGE NO. B1 & B3

Pesotum considering water change

■ Supplier would be Champaign's own Illinois-American

By TIM MITCHELL
 News-Gazette Staff Writer

PESOTUM — Pesotum residents could soon be drinking the same water that Champaign residents drink.

Members of the Pesotum Village Board have begun talks with Illinois-American Water over the possibility of having that private company pro-

vide water to the community.

Pesotum currently operates its own water system, using water from three wells within the community.

But Mayor Scott Morris said the village's water system is aging, with most of it built in 1955, and some of the water infrastructure may need to be replaced in future years.

In addition, village board member Steve Schaefer said some residents have expressed concern over the quality of the village's water.

"Our main concern is improving the water quality," Schaefer said. "The water is smelly in some places, and

we have a problem in algae."

Pesotum water operator Calvin Woodworth said the village doesn't do water softening at this time.

"And most of our residents do not have water softeners," Morris said.

Illinois-American water operations manager Barry Suits said his company intends to build a new main to bring water from Champaign to the Embarras Area Water District in Douglas County.

Illinois-American has been piping water to the Embarras area from Mattoon, but engineering manager Brent O'Neill said the company has decided

to pipe water to that area from Champaign instead.

Construction of the new main is expected to begin in late July and should be completed by October, Suits said.

Since the new main will come within a quarter mile of the north side of Pesotum, Illinois-American officials approached the Pesotum Village Board about providing the community with water.

Morris said the village board has three options:

Please see PESOTUM, B-3

Pesotum

Continued from B-1

— It could sell Pesotum's entire water system to Illinois-American, with the Champaign company providing water to the community's 246 homes. Illinois-American would then be responsible for improvements to the village's water infrastructure.

O'Neill said Illinois-American would likely replace all the 2-inch water mains and many of the 4-inch water mains with 6- or 8-inch mains.

"Six- or 8-inch mains would be much better for fire protection," O'Neill said.

O'Neill said Pesotum residents would likely be charged the same water rates that Champaign residents pay, which he said is now between \$21 and \$24 a month.

Schaefer said the average water bill right now in Pesotum is about \$16 a month.

"Our rates might be a little higher than you are used to," O'Neill said. "But we think the

extra cost will be worth it when you consider the quality of water we will provide."

— It could keep the Pesotum water system, but purchase water in bulk from Illinois-American from the new pipeline.

While water quality would increase, the village would be responsible for paying for any infrastructure improvements.

"At least our water will not leave residue behind in your fixtures," Suits said.

While the village could choose to sell the water system to Illinois-American at a later date under this scenario, Illinois-American Business Development Director Kevin Caveny warned that the village would likely receive less money for the plant at a later date than it would get if it sold the plant right away. He said there would be less profit in buying the system after the company was already providing Pesotum with water.

— It could do nothing.

Morris said that water quality

would remain the same, but the village board would need to consider raising water rates to pay for infrastructure improvements.

At a meeting on Wednesday, Pesotum officials agreed to provide documentation about its water system to Illinois-American.

Then O'Neill will spend four weeks doing an evaluation of Pesotum's water system to determine how much it is worth and any recommendations for improving the system.

Illinois-American officials will meet again with village board members in September to discuss the various options.

Morris said it would be up to the village board to decide which option to pursue.

"As far as I'm concerned, the whole key is to provide better water for our residents, regardless of the option we go with," he said.

You can reach Tim Mitchell at (217) 351-5366 or via e-mail at tmitchel@news-gazette.com.

cc: T. Gloriod, D. Mitchem, F. Ruckman, S. Schultz, K. Hillen, S. Atherton, D. Baker, T. Exton, K. Caveny, T. Mackin, M. Johnson, D. Wingertsahn, R. Scheppmann, B. Gregory, M. Mitch

Illinois-American Water Company
 (Formerly Northern Illinois Water Corporation)

ILL. C. C. No. 5 (T)
 First Revised Title Page(T)
 Canceling Original Title Page(T)

Applies to All Districts Illinois
 (Name of City)

SCHEDULE OF RATES

FOR

WATER SERVICE

Applying to the following Territory:

Champaign	Pontiac	Champaign
Urbana	Sterling	LaSalle
Savoy	Streator	Livingston
Bondville	Saunemin	Whiteside
<u>Pesotum</u>		

(Name of City)

(County)

Issued August 25, 2004
 (Month) (Day) (Year)

Effective August 28, 2004
 (Month) (Day) (Year)

Issued by T.L. Gloriod
 (Name of Officer)

President
 (Title)

300 North Water Works Drive, Belleville, IL 62223
 (Address of Officer)

Illinois-American Water Company
(Formerly Northern Illinois Water Corporation)

ILL. C. C. No. 5
Third Revised Sheet No. 0.1
Canceling Second Revised Sheet No. 0.1

Applies to All Districts Illinois
(Name of City)

WATER SERVICE

Illinois-American Water Company provides water service to several communities in Illinois within four separate districts of its Eastern Division. Each district is a separate service area and system. Each district has separate and individual rate schedules which contain different rates. As used in the rate schedules of these tariffs, the district designations applicable to the communities served by the Company are as follows:

Champaign District	Champaign, Urbana, Bondville, Savoy, St. Joseph, Philo, Tolono, Tuscola, Arcola, Sidney, Seymour Water District, Embarras Area Water District <u>Pesotum</u> and vicinity
Sterling District	Sterling and vicinity
Streator District	Streator, Kangley, Eagle Township and vicinity
Pontiac District	Pontiac, Saunemin and vicinity (T)

Issued: August 25, 2004

Effective: August 28, 2004

Issued by: T. L. Gloriod, President
300 North Water Works Drive
Belleville, Illinois 62223

Pursuant to Commission Order dated 7-8-04, Docket No. 03-0768

Illinois-American Water Company

(Formerly Northern Illinois Water Corporation)

ILL. C. C. No. 5

Twenty-seventh Revised Sheet No. 2

Applies to All Districts Illinois
(Name of City)

Canceling Twenty-sixth Revised Sheet No. 2

WATER SERVICE

PUBLIC FIRE PROTECTION SERVICE

Unmetered water service available only to Cities, Villages, and Fire Protection Districts for their respective exclusive use in maintaining fire protection within the respective Cities, Villages and Fire Protection Districts, testing of fire apparatus and practice of fire departments. This rate is the charge each City, Village or Fire Protection District has agreed to pay under an Agreement with the Company pursuant to Public Act 83-1295.

<u>Customers Within</u>	<u>Annual Charge per Hydrant</u>
Bondville, Village of	\$318.57
Carroll FPD	0.00
Champaign, City of	0.00
Cherry Hills FPD	318.57
Eastern Prairie FPD	318.57
Edge-Scott FPD	20.00
Lincolnshire Fields, FPD	0.00
Rolling Acres FPD	0.00
Savoy, Village of	60.00
St. Joseph-Stanton FPD	0.00
Tolono, Village of	318.57
Urbana, City of	0.00
Windsor Park FPD	0.00
<u>Pesotum</u>	0.00

The annual charge shall be payable monthly.

Issued May 21, 2004
Month Day Year

Effective July 5, 2004
Month Day Year

Issued by T.L. Gloriod,
Name of Officer

President
Title

300 North Water Works Drive, Belleville, Illinois 62223
Address of Officer

Illinois-American Water Company

(Formerly Northern Illinois Water Corporation)

ILL. C. C. No. 5

Twenty-second Revised Sheet No. 2.3

Applies to Champaign District Illinois
(Name of City)

Canceling Twenty-first Revised Sheet No. 2.3

WATER SERVICE

ADDITIONAL BIMONTHLY CUSTOMER CHARGE FOR FIRE PROTECTION SERVICE TO CITIES, VILLAGES, AND FIRE PROTECTION DISTRICTS

Pursuant to Public Act 83-1295, there shall be added to the bills of each customer residing within the particular City, Village, or Fire Protection District (except the City, Village, or Fire Protection District), a bimonthly charge for fire protection service within that City, Village, or Fire Protection District. The additional bimonthly customer fire protection service charge shall be as follows:

Additional Bimonthly Charge

<u>Customers Within</u>	<u>5/8"</u> <u>Meter</u>	<u>3/4"</u> <u>Meter</u>	<u>1"</u> <u>Meter</u>	<u>1-1/2" Or</u> <u>Larger Meter</u>
Bondville, Village of	0.00	0.00	0.00	0.00
Carroll FPD	1.78	2.68	4.46	8.90
Champaign, City of	4.06	6.10	10.16	20.30
Cherry Hills FPD	0.00	0.00	0.00	0.00
Eastern Prairie FPD	0.00	0.00	0.00	0.00
Edge-Scott FPD	1.62	2.44	4.06	8.10
Lincolnshire Fields, FPD	5.74	8.62	14.36	28.70
Rolling Acres FPD	4.78	7.18	11.96	23.90
Savoy, Village of	3.42	5.14	8.56	17.10
St. Joseph-Stanton FPD	6.70	10.06	16.76	33.50
Tolono, Village of	0.00	0.00	0.00	0.00
Urbana, City of	4.02	6.04	10.06	20.10
Windsor Park FPD	5.94	8.92	14.86	29.70
<u>Pesotum</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>

Issued May 21, 2004
Month Day Year

Effective July 5, 2004
Month Day Year

Issued by T.L. Gloriod,
Name of Officer

President
Title

300 North Water Works Drive, Belleville
Illinois 62223
Address of Officer



July 7, 2006

Pesotum Fire Protection District
Calvin Woodworth, Fire Chief
103 W. Lincoln
Pesotum, IL 61863

Chief Woodworth,

Please find attached the agreement for public fire protection that we discussed in early June when I met you. Based upon the 23 hydrants utilized for fire protection in Pesotum, we have calculated an estimated \$2.28/monthly charge per customer with a 5/8" meter. This compares to a similar rate in Champaign of \$2.03 and Urbana of \$2.01. These costs were included in earlier rate comparisons made between Pesotum and Illinois American Water.

These agreements were presented to the Village Board at Wednesday's meeting. I provided them with a similar explanation that I provided you and your trustees in early June. They are also aware of the costs.

Please feel free to discuss this issue with the Pesotum Village Board. For the acquisition documents to be filed with the Illinois Commerce Commission, we will need this public fire protection agreement completed and executed.

Please contact me with any questions you may have.

Sincerely,

A handwritten signature in cursive script that reads "Barry Suits".

Barry L. Suits
Network Operations Manager

/BLS

Attachment

**PUBLIC
FIRE PROTECTION
SERVICE AGREEMENT**

In consideration of the receipt of public fire protection service from Illinois-American Water Company ("Company"), consisting of the capacity, facilities, and water, as available, to meet its fire protection needs, the undersigned municipality or fire protection district agrees to pay an amount to be calculated in the manner designated below:

- () 1. The monthly charge for a public fire hydrant contained in the Company's tariffs on file with the Illinois Commerce Commission, from time to time, (presently \$ 26.55 per hydrant) multiplied by the number of public fire hydrants in the municipality or fire protection district during the month for which service is being billed; provided that, should a hydrant be added or removed, the charge for such hydrant shall be pro-rated, based upon the number of days that hydrant was in service during that month.
- () 2. \$ 318.57 per year multiplied by the number of public fire hydrants in the municipality or fire protection district during the year for which service is being billed; provided that, should a hydrant be added or removed, the charge for such hydrant shall be pro-rated, based upon the number of days that hydrant was in service during that year; and provided, further, that the Water Company's customers located within such municipality or district, pursuant to Section 9-223 of the Illinois Public Utilities Act, 220 ILCS 5/9-223 (the "Act"), shall pay the difference between the charge contained in the Company's tariff, from time to time, and the amount paid by the undersigned pursuant hereto through a tariff which will be imposed, from time to time, on such customers.
- (X) 3. No charge to the undersigned, except that the undersigned shall be required to pay the fire protection charge applicable to individual metered water service accounts of customers located within the municipality or fire protection district pursuant to the Act, if the municipality or district is itself a customer.

Notwithstanding the payment option elected above by the undersigned, should the Company not receive payment as contemplated above, service hereunder may be discontinued, at the Company's sole option, upon not less than five (5) days' advanced written notice to the undersigned.

The undersigned municipality or fire protection district agrees that future installations of public fire hydrants shall be governed by the Company's rules and regulations then on file with the Illinois Commerce Commission ("ICC").

This Agreement shall continue in full force and effect until the undersigned gives the Company six months' advanced written notice of a proposed change and the execution of a new agreement for fire protection service by the parties; provided, however, that if the Act is repealed or amended in any material respect, and the Company is receiving payment from its customers thereunder, this Agreement shall immediately become null and void.

This Agreement shall not become effective, until it has been accepted by the Company.

This Agreement is conditioned upon approval of the Illinois Commerce Commission.

IN WITNESS WHEREOF, this Agreement has been duly executed by the undersigned as of the 15th day of AUG, 2006.

Pesotum Fire Protection District

103 W. Lincoln

Pesotum, IL 61863

WITNESS:

Dennis M. Butler

Title: Trustee

By: James T. Sly

Title: Trustee

Accepted by Illinois-American Water Company:

Date: _____

By: _____

Title: _____

ILLINOIS-AMERICAN WATER COMPANY
Acquisition of Village of Pesotum Water System
Docket No. 06-XXXX
Public Fire Service Charges-Pesotum Fire Protection District

Exhibit MJH 1.5

FIRE DISTRICT	Revenue Classification	Meter Size	Total Meter Billings	Flow Factor	Equivalent Billing Units	Monthly Meter Price	Annual Revenues
Pesotum Fire Bi-Monthly Billing	Residential	5/8 inch	1,536	1	1,536.0	\$4.62	7,096
		3/4 inch		1.5	0.0	6.93	0
		1 inch		2.5	0.0	11.55	0
		1 1/2 inch		5	0.0	23.10	0
		2 inch		5	0.0	23.10	0
		Total	1,536		1,536.0		7,096
	Commercial	5/8 inch	6	1	6.0	4.62	28
		3/4 inch		1.5	0.0	6.93	0
		1 inch	6	2.5	15.0	11.55	69
		1 1/2 inch		5	0.0	23.10	0
		2 inch		5	0.0	23.10	0
		Total	12		21.0		97
	Other Publ Auth	5/8 inch		1	0.0	4.62	0
		3/4 inch		1.5	0.0	6.93	0
		1 inch		2.5	0.0	11.55	0
		1 1/2 inch		5	0.0	23.10	0
		2 inch	6	5	30.0	23.10	139
		Total	6		30.0		139
	Grand Total		1,554		1,587.0		\$7,332
			=====		=====		-----
	# of Hydrant Billings	138					
Bi-Monthly Charge per Hydrant	\$53.10						
Annual Cost	\$7,327.80		Payment from fire district				0
Equivalent Billing Units	1,587.0						-----
Equivalent Unit Cost	\$4.62		Total Recovery of fire service				\$7,332
5/8 inch Meter Charge	\$4.62						=====

ILLINOIS-AMERICAN WATER COMPANY
Acquisition of Village of Pesotum Water System
Docket No. 06-XXXX
Revenue Requirement Calculation

Exhibit MJH 1.6

**After
Acquisition**

Revenue Supported Investment	\$156,839
Rate of return per most recent rate order	7.39%
UOI	11,590
Fuel & Power	2,241
Chemicals	2,026
Waste Disposal	208
Labor	11,022
Benefits	4,409
Insurance Other Than Group	2,843
Customer Accounting	3,843
Maintenance	4,499
Lease Payments (per contract)	2,000
General Taxes	1,255
Depreciation expense	10,143
Income tax expense	4,419
Total revenue requirement	60,497
Revenue requirement factor	<u>38.57%</u>
Revenues	\$ 64,567
Number of additional customers	259
Water sales (1,000 gal.)	13,060

ILLINOIS-AMERICAN WATER COMPANY
Acquisition of Village of Pesotum Water System
Docket No. 06-XXXX
Accounting Entries to Record Purchase

Exhibit MJH 1.7

Account	Description	Debit	Credit
104	Water Utility Plant Purchased	\$ 165,771	
131	Cash		\$ 165,771

(Journal Entry to record the acquisition of Water Assets)

Water Utility Plant Acquired

303	Land & Land Rights - SS	\$ 4,877	
303	Land & Land Rights - WT	2,027	
304	Structures & Improvements - SS	17,465	
304	Structures & Improvements - WT	2,437	
331	Transmission & Distribution Mains	195,060	
333	Services	42,028	
334	Meters	8,768	
334	Meter Installations	9,709	
335	Hydrants	29,497	

Reserve for Depreciation

108	Structures & Improvements - SS		\$ 18,991
108	Structures & Improvements - WT		268
108	Transmission & Distribution Mains		70,922
108	Services		31,065
108	Meters		9,528
108	Meter Installations		4,744
108	Hydrants		19,509

104	Water Utility Plant Purchased		165,771
114	Utility Plant Acquisition Adjustment	\$ 8,932	

(Journal Entry to clear the balances recorded in Utility Plant Purchased or Sold and transfer to the appropriate accounts)